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"MY MOTHERLAND" SERIES XE. No. 10

THE REVERSE COUNCILS LOOT

AND.

EXCHANGE MYSTERY

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A FOREWORD

The recent decision of the British Cabinet to link the rupee with the unstable sterling at 18 pence, has created a wide-spread fear in India that the Reverse Councils coup of 1920 may be repeated again. This feeling is strengthened by the return of the National Government to power with an overwhelming majority, so that public interest in that exchange tragedy has been considerably increased. This pamphlet is therefore opportune, not merely from the standpoint of the people but of the Government who should have no difficulty to appreciate the Indian view point in the light of the subsequent developments discussed herein.

In the preparation of this pamphlet, Mr. T. S. Krishnamurthy Iyer's *Reverse Councils* and *other "Organised Plunders"* (Ganesh & Co., Madras) has been of the utmost help. The reader is referred to that book for fuller details.

M. S. KAMATH,
Editor and Publisher.

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விவேகானந்த புத்தகசாலை
இந்து மதாபிமான சங்கம்
காரைக்குடி.

THE REVERSE COUNCILS LOOT AND EXCHANGE MYSTERY

In the popular mind, the problem of currency and exchange is associated with considerable mystery. That is due largely to the misleading and inadequate information which is furnished by our experts and to the various appendages such as the "Reserves," which the powers that be have created in respect thereof. No other civilised country maintains so complicated a machinery, with the result that even the student of finance finds himself here in a mire of high sounding names.

After all, the problem is very simple and in a country so fortunately situated as India, exchange and currency ought to afford no trouble or anxiety. The requirements of any country in this respect are two fold—currency for internal and for external trade. The former gives no trouble anywhere except when the notes issued are so much in excess of the metallic backing in silver or gold, that they cannot be readily cashed. That difficulty has never risen in India, and in view of the increasing popularity of currency notes, it is not likely to arise either.

Equally simple is our problem in respect of foreign dealings. For, except on very rare occasions, we export more than we import, with the result that the rest of the world has to pay us, instead of our having to pay them. So we can easily decide how we are to be paid, specially as India is need of and can digest a good deal more of gold. Exchange gives trouble only when, as in a country like England, the exports are less than the imports, leading often to payments abroad.

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Unfortunately, this exceptionably strong position in which India had been for decades past, has not been fully utilised; and as the following pages will show, it has often led to the adoption of a mysterious policy as a result of which that strength has recoiled on this country itself.

Two Alternatives

In respect of the payment by foreign countries, two alternatives are open to us. If the internal currency of India be in gold, we can accept payment in our own currency, whose rate of exchange with the other world currencies can be easily fixed. The other alternative is to have silver currency in the country and link it with the gold currency of England, a procedure for which there is hardly any valid reason; but for some reason or other, our Rulers have decided that such shall be our currency. That being so, the question arises, what is to be the rate at which rupees shall be exchanged for the sterling—the medium of foreign currency?

Till recently, a pound sterling meant a pound in gold; but to-day, it means a pound in paper, which may be worth fifteen shillings in gold! The only excuse which in the past was given to the linking of the rupee with the sterling was that it gave stability to the rupee in world markets; but that excuse was forgotten recently when Sir Samuel Hoare ordered that the rupee shall be linked with the fluctuating and unstable pound. As this is at best a temporary phase, we shall not here discuss it in detail, beyond stating the unanimous Indian view that the new arrangement is conceived entirely in the interests of Britain.

The Rate of Exchange

What, then, shall the rate be at which the rupee is to be exchanged with the foreign currency, or the pound in particular? India had desired that the rate shall be Rs. 15 per pound or 1sh. 4d. per rupee; but Sir B. Blackett thought it shall be 1s. 6d. Why?

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One reason is obvious. The higher the rate of the rupee, the more advantageous is it to England. And this is not the opinion of Indians alone. Any number of quotations can be given to show that impartial people all over the world including Britishers, accept this view.

Here is what the chairman of Barclay's Bank stated :

" The rapid rise in the exchange has increased the cost of Indian products in foreign markets and is reflected in diminishing exports of certain commodities. On the other hand, with the improved value of the rupee, sales of Manchester goods have increased."

Sir William Meyer, one of the few sincere Finance Members that India was fortunate to have, has placed on record that "a rise in exchange, under ordinary conditions, tends to prejudice the export trade."

In fact, no opinions are needed to prove the obvious fact. Take our exports. For every pound sterling paid by foreigners for our produce we get to-day only Rs. 13—8—0 whereas under the old rate, we got Rs. 15. Similarly in respect of our imports, for every Rs. 13—8—0 we pay, a Lanchasire man gets to-day one pound, whereas in olden days, he got not even 18 sh.! Thus whereas ryots get less for their produce, our foreign manufacturers are placed at an advantage by the present higher ratio, in competing with Indian competitors in our own markets!

When at the close of the war, France found herself crippled seriously, she resorted to a sane exchange policy. She depreciated the value of the franc. Whereas before the war, a pound was worth 25 franks, French statesmen decided to lower it to 125 francs—*i.e.*, they pursued a policy quite the reverse of what Sir B. Blackett forced on India. We see the result to-day. France is now the most powerful nation in respect of international finance and India is at the opposite end!

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A Stupid Argument

At this stage a brief digression is necessary. India is told that if it adopts a cheaper rupee, *i.e.*, if its value be 16 pence instead of 18 pence, she will have to pay more to liquidate her foreign debt, *i.e.*, for every million sterling she will have to send out 15 million rupees instead of 13. 5 millions under the 18d., ratio.

A more stupid and hypocritical argument is inconceivable. In the first place, India pays the foreign debt not by exporting rupees or pounds, but through her exports, for which she will get 12½ per cent. more under the lower ratio, so that there is no loss to the country. What is more pertinent, ever since this excuse was put forward India has been a borrower, rather than a payee. On the excuse that she will have to pay Rs. 15 in returning every pound of the loan, all these years she has been receiving only Rs. 13-8 0 for every pound borrowed; and as India has been borrowing rather than paying, the threat of having to pay more has merely fructified in our receiving less!

The Great Coup

With this brief introduction, we shall now proceed to the Reverse Councils Loot.

At the close of the great war, India found itself in an exceptionally strong position in respect of foreign exchanges.

In spite of the war gift of the hundred million sterling which the subordinate branch of the British Government made to Britain on behalf of the Indian people without even consulting them, India was in a position to lend 67 million sterling to the British Government in London. The export trade in 1919 was very good and to liquidate the trade balance, *i.e.*, to pay India for the excess of exports over imports, foreigners had to pay us 90 million sterling. If the Government were so inclined, these balances could have been utilised

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to wipe off our foreign debt and thus free India from that nasty incubas : but instead, a policy was followed the result of which was to fritter away all those advantages and turn the tables on this country.

The clue to this disaster, which has no parallel in world's history, is furnished by Mr. T. M. Ainscough, British Trade Commissioner in Calcutta, who wrote on July 23rd 1919 :—

"The future trend of exchange (in India) is likely to have a considerable influence, on Japanese competition. The recent advance in the selling rates of the rupee from 16d. to 20d. has given the imports from countries on a gold basis such as the United Kingdom, America and Japan an advantage of 20 percent, that is to say, the prices of United Kingdom, America and Japan goods, expressed in rupees are reduced by 20 percent....

" The high exchange operates in precisely the opposite way in the case of exports from India, that is to say, the prices of Indian produce as expressed in the gold currencies of overseas importing countries are raised by the same proportion. Now Japan imports 60 per cent of raw cotton from India, so that the high prices expressed in gold yen, at which she will have to purchase her raw materials, must be reflected in enhanced rates for the manufactured piecegoods. On the whole, therefore, the rise in exchange should not only greatly benefit Lancashire by reducing piecegoods prices in India but should improve her position, *visavis* Japan, the price of whose goods will not be reduced in the same proportion. ...

" The British maker's material interests would appear to be best served by the fixation of exchange (in India) at as high a rate as may be possible under the circumstance. ...

" Purchases of Lancashire goods will be considerably aided by the rise in exchange to 20d. an advance of no less than 25 per cent. on normal rates which is all in favour of the importer."

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India Doubly Hit.

Please note the implications. The advantage from high exchange rate goes entirely to Britain. Not only is India hit but also countries which import our raw materials—thus the blow to India is really double.

This report was brought to the knowledge of every British trader and to encourage the flow of British goods Mr. Ainscough went to England in furtherance of the great mission! Goods began to flow into India almost in an avalanche and to facilitate matters, the exchange rate was raised from 1sh'8d. which gave an advantage of 25 per cent to Lancashire to 2s. and even further, giving at one stage cent per cent advantage.

All this was done with the active support of the Government of India. Sir Charles Innes stated in the Assembly:

"We know that Germany and Belgium can dump by reason of their depreciated exchanges. We must give a moderate amount of preference for British firms."

How did this procedure work? The export of Indian produce fell and the imports mounted up—specially of goods from England. People here, not recognising the trap, ordered for goods in the hope of making a fortune in a few days. The net result is revealed in the following trade figure of India—remembering that the coup began to take effect about the end of 1919.

In crores of rupees.

	Exports	Imports	Difference
1919—20	327	208	+119
1920—21	257	336	— 79
1921—22	245	266	— 21

Note England's share in this trade—how as a result of manipulating the exchange in her favour, her exports to India increased and her imports from India fell.

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In millions sterling

	England's Exports to India.	Imports from India.
1919—20	105	97
1920—21	205	56
1921—22	100	33

These two sets of figures are specially noteworthy. They show how India's loan to England and the foreign balance to her credit in the international market, amounting in all to over £ 150 millions, were wiped out by the artificially created adverse trade balance.

This is the first result of the coup. England had feared that India would have to be paid in gold. That fear vanished and England utilised the advantage to set right her exchange with America which was tottering !

It may be contended that if India was not paid in gold, she was paid in goods. But thereby hangs a tale. The orders were placed when Indians hoped to liquidate their sterling payments at Rs. 7–8–0 or thereabout. When actual payment was made, the rate was nearly twice as high, But to that we must return later.

For the Exploiters

At this point, a reference is necessary to a war phenomenon. For some reason or other, the huge profits gathered by Britishers during the war had not been sent home by them—and this retention in India had caused considerable embarrassment to the Government of India in maintaining the exchange rate. Several appeals had officially been made for their patriotism ; but to no effect. They awaited a favourable rate of exchange. *i.e.*, they were not satisfied with the exploitation of Britain's war needs. They wanted to make a profit even in transferring those profits to their country. In view of the trouble they gave to the Government, the natural course for them to adopt would

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have been to deny special official facilities for the transfer of their money ; but for some most mysterious reasons, the Government adopted the reverse policy. They proceeded upon the basis that the demands of these remitters of war profits must be " in a large measure satisfied."

Hence began the sale of the notorious Reverse Councils.

For the information of the uninitiated, let me explain what Reverse Councils mean. In normal times, the Government through the India Office gets money through drafts which are paid in rupees by the Government of India. The India Office receives pounds in London and the person or bank who pays them, is paid in rupees by the Government in India. This is termed the sale of Council Bills. Sometimes, but very rarely, it so happens that the trade balance of India is reversed or is found inadequate and money has to be remitted from India to meet trade or other requirements. At such times, rupees are paid to the Government here and the India Office pays sterling there at the exchange rate fixed. This process is the reverse of the usual current of remittance and it is called the sale of Reverse Councils.

The Pagoda Tree

Just at this juncture, the Government fixed the exchange rate of the rupee at 2 sh. against India's protests—not even 18 pence of the Blackett ratio—but the persons who had with held their remittances wanted even greater sacrifice on behalf of India. So they pushed the rate of exchange artificially to a higher figure, and when it reached 2s. 4d. those exploiters decided that the time had come to make remittances to England ; and the Government of India decided, for some mysterious reason, that they must furnish the facilities for the transfer, and that not at the official rate of 2s. but at 2s. 4d. or even more. So between the period 2nd Jan. and 28th Sept., 1920, they accepted at the cost of

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the Indian tax-payer to remit to England the amounts offered in India and at rates varying from 2s. 11d, to 1s. 11½d. to the rupee they sold Reverse Councils to the tune of £55,382,000! The rates offered to the remitters from India were so attractive that even the Karachi Chamber of Commerce, an institution run by non-Indian merchants, was forced to observe that "the Government of India were selling pounds sterling every week on terms far more favourable to the public than the public themselves asked for!"

These sales took the Indian public by surprise but Europeans who were in the know made the fullest use of them. When the pound touched Rs. 7, *i. e.*, when the Government offered to transfer the rupees to England at Rs. 7 per pound, Calcutta alone bought pounds to the extent of four million sterling!

Indians protested; but theirs was a cry in the wilderness. The sales went on until the Government came to the end of their resources. It was admitted later that the Government lost 36 crores; but the loss was far greater. Persons in the know made huge piles. Several of them sent all they could spare and get at to England at Rs. 7 or so and some brought the amount back at Rs. 14 or so, reaping a hundred per cent. profit in a few weeks.

At a late stage, Indians tried to get as much of this windfall as possible; but their share was only ten millions. All the rest went into the pockets of foreigners. Even non-Britishers had a good slice.

The Official Explanation

Why did the Government embark on this venture? No valid explanation has been received and when the Finance Member, Sir M. Hailey, was trounced in the Assembly and told to his face that the coup was for the benefit of others at India's expense, he declined to disclose who were at the bottom of it. The only excuse put forward was that he wanted

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to stabilise the rupee at 2s. That itself was mischievous. We know how greatly India has suffered because of the 18d. rupee. If it had been stabilised at 24d. the disaster would have been overwhelming. And every one knew that the rupee could not be stabilised at 2sh. The directors of the E. I. R. went to the length of asking the Government to contract to pay their surplus profits at 1s. 8d.—and not 2sh. Would they have thrown off the advantage if there was the least chance of establishing the rupee at 2sh ? But the Government refused to take any of these warnings.

The only explanation possible is that these manipulations had two objectives—favouring the English exporter and helping the transfer of capital from India at fabulously favourable rates. Anyway those were the results achieved. And at what cost ?

The claim that the Indian exchequer lost only 36 crores of rupees is ridiculous. The loss was far greater. When these manipulations began, India lent money in England. At the end of this period, India had to borrow and that at very heavy rates, even 7 per cent ! What of the loss on this score—by way of high interest ?

This coup was materially responsible for the dislocation of Indian finance, which caused unprecedented deficits, to meet which the Government had to borrow heavily even after imposing a series of fresh taxes. The national debts increased by 261 crores and the net interest on unproductive debts alone went up from 6.8 to 15 crores ! If this be capitalised, the loss to the State will be seen to be not less 200 crores !

Industries Destroyed

Moreover Indian credit was destroyed. In 1919, India could meet all her requirements in Government loans locally. After this tragedy, India was forced to borrow in England, at high rates,—a double disaster.

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A greater loss was suffered by the people. They ordered goods in the hope of having to pay for it at Rs. 7 to 8. The bills were paid at Rs. 13 to Rs. 15. The goods had in most cases been sold at the lower price! The bills thus paid at higher prices are said to have exceeded 330 crores and nearly 300 crores were finally paid at the higher ratio. The rest were repudiated or paid in part. The net loss to India on this account cannot be less than 125 crores.

Several industries that had grown up during the war were nipped in the bud. They could not compete with foreign rivals when they received cent per cent. concession through exchange. Even the industries that survived the storm, found themselves more or less crippled. It took nearly eight years and the swadeshi impetus to revive, for instance, the cotton mills of Bombay; but a good number of them were killed outright.

The Verdict

In India, the position of foreign merchants became far stronger. Theirs was the largest gain. Some of them chose to retain the wealth in their own lands; but others brought it back to India—of course, at immense profit. And this was utilised to strengthen their economic grip on India. It is claimed that soon after this coup, Government securities held by Indians passed into foreign hands, of course, at cheap rates! And they consolidated their position in other ways as well.

Several semi-official bodies in India, such as port trusts and even local boards were forced to borrow at exorbitant rates in foreign lands.

Indian concerns had to do the same, thereby losing their freedom, even their indegenous character. Vast undertakings, such as those of the Tatas, found it extremely

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difficult to secure sufficient finance locally and had to raise foreign loans.

But in spite of this partial return of capital to India, the sequel was on the whole disastrous.

Even the Anglo-Indian *Capital* was forced to exclaim:

"We have been dreadfully victimised by the insane policy of the Simla autocrats."

Sir Valentine Chirol wrote:

"Not only did the Indian exchequer suffer enormous losses in its own exchange operations, but the whole of India was paralysed, and when Indian merchants, threatened in many cases with ruin, appealed to the Government for compensation or help, and were told that Government disclaimed all responsibility, the shock was scarcely more disastrous to our reputation for business than to our credit for good faith."

Benefit to England

The immediate result of this coup was a rise in British financial strength. The debt to India vanished. The dollar exchange rate improved and the bank rate which was higher than in India steadily went down from 7 to 3½ per cent.

The reverse was the effect on India. Our foreign holdings vanished and debts increased. New taxation followed in quick succession. Several industries were ruined. The bank rate went up and in consequence, a rot began in Government securities.

This injury finally reacted on England itself. An impoverished India naturally proved to be a bad market; and what is worse, the Government of India lost credit with the Indian commercial community. From this period, its support to the Congress steadily increased.

One may go even farther and ask whether the recent disaster in respect of the pound, leading to the denouncement

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of the gold standard by England had nothing to do with the similar loot from India. That had shown to the capitalists how in times of emergency national credit could be exploited to serve their own ends and that is how Britain was forced to accept the recent humiliation.

The Worst of It

That is however poor consolation to India, which has not yet recovered from that disastrous blow. The net loss to India was perhaps 500 crores; but if that sum had gone in some such open way as the war gift of hundred millions, the dislocation in Indian finance and commerce would not at all have been so crippling. Even more harmful than the loss was the way in which it was caused; and the most tragic part of it was that instead of acknowledging the blunder, Sir M. Hailey, its chief author, traced all the subsequent financial miseries of the country to Gandhiji's activities!

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